

February 1986

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\$4.50

Profile of Circle K, No. 2 C-store Chain

Auto Care Programs on Rise Again

Why Jobber Likes Small Towns for Modernization

NPN

National Petroleum News

Self Serve

Shell

Open 24 Hrs.

192
SRI
ACQUISITIONS
CONGRESSIONAL INFL
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GUSCONGR452ESD HPB

The Beat Goes On

The Multi-Million Dollar Image Race

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While they are still culling out marginal units, the multi-million dollar race to improve their retail image continues among gasoline marketers. But, it's an expensive race, up to \$200,000 each for a "face lift." **Page 38**



Image, mini-marts, 24-hour service and a jobber incentive program have helped make Cappon Oil Co. of Hastings, Mich. a 16 million gal./year business in towns no larger than 6,500 residents. **Page 42**



America's No. 2 convenience store company, the Circle K Corp., plays second fiddle to no one. Over the past few years, it has shown that just because it's about half the size of giant Southland Corp., that doesn't mean it's half as good at the business of selling convenience. **Page 48**

• TRENDS

No Escape for Oil Industry: Import Fee or Excise Tax?

With talk of deficit reduction now dominating the agenda in Washington, the oil industry will be on the defensive in 1986 as it tries to escape Congressional imposition of an import fee or a hike in the federal gasoline excise tax.

At press time, OPEC's collapse had given proponents of higher oil taxes a new argument. Because crude prices are expected to continue a downward spiral, they argue, consumers will hardly notice the new taxes. Prices will stay about the same, they claim, while the government will be reaping billions to cut the massive \$200 billion federal debt.

Sens. Gary Hart (D-Colo.) and David L. Boren (D-Okla.) were expected to renew calls for either a \$5 or \$10 bbl. tax on imported crude. Key Republicans in the Senate may be persuaded to go along, just as they did last summer when the \$5 bbl. tax hike plan surfaced. Only a veto threat from the White House prevented the measure from becoming law [NPN—Sept. '85, p16].

In recent weeks, momentum has also gained for a hefty gasoline tax increase. One of the gas tax advocates is Martin Feldstein, President Reagan's former chairman of the Council of Economic Advisers, who urged Reagan and Congress to "jump at this new opportunity to make a significant dent in the future budget deficit."

Feldstein's plea came in a recent opinion column in the Washington Post, where he claimed a 15¢ gal. increase in the gasoline tax would reap \$15 billion a year for the federal treasury. A motorist driving 100,000 miles annually in a 20 mpg car would pay an extra \$75 a year, Feldstein said.

Feldstein favors the gas tax hike over the oil import fee because he said the latter would discriminate more against the Northeast and other regions of the country which rely more heavily on oil for heating and electricity.

A possible tax increase is clearly going to be a top priority on Capitol Hill this year. Ken Doyle, executive director of the Society of Independent Gasoline Marketers of America, says it may boil down to "how we're taxed, not whether we're taxed."

Congress forced the issue late last year when it passed the

Gramm-Rudman-Hollings bill, named after the bill's sponsors, Sens. Phil Gramm (R-Texas), Warren Rudman (R-N.H.) and Ernest Hollings (D-S.C.). The legislation mandates \$11.7 billion in budget cuts beginning March 1, followed by a series of annual deficit reduction targets until the deficit reaches zero in 1991.

Opponents of Gramm-Rudman-Hollings bill were challenging the legislation in court at press time. If it survives the court test, Congress and President Reagan are required to come up with a plan to cut the deficit. If the two sides are unable to do so, automatic across-the-board cuts in federal spending would occur.

Many Washington observers think the spending cuts will be accompanied by a tax hike, which they say will probably occur by at least October 1, the day fiscal 1987 begins. Under Gramm-Rudman-Hollings, Congress and the White House must keep the federal debt at no more than \$144 billion by the end of fiscal 1987.

As Congress was preparing to return to Washington in January, the tax hike debate focused on energy taxes (either an oil import fee or gas tax hike) or some form of value added tax on business [NPN—Jan. '86, p30], or a combination of both.

SIGMA's Doyle says independent marketers are "100% against petroleum taxes," but he adds that it would be "short-sighted" not to see some form of tax increase on the horizon. If the choice is between the oil import fee or the gas tax, SIGMA prefers the gas tax because it is "more equitable," Doyle says.

Doyle fears that an oil import fee could drive SIGMA members out of business. "If my members can't buy from off-shore, there's no incentive for the majors to sell to us," he says.

The Petroleum Marketers Assn. of America also opposes both the proposed oil import fee and the gas tax hike. If Congress enacts a petroleum tax, however, PMAA favors a general BTU tax on items such as natural gas and coal as well, according to executive vice president Phil Chisholm.

President Reagan's general opposition to new taxes is perhaps the only reason for optimism among marketers. But even Reagan may finally relent to deficit-reduction pressures this year. It wouldn't be the first tax hike during his administration. In 1982, for example, Congress received White House blessings to raise the federal gasoline excise tax from 4 to 9¢ gal., with all proceeds targeted for road construction, repair and improved mass transit.

—Dennis Wharton

• MARKETPLACE AT A GLANCE

AVERAGE GASOLINE PRICES IN THE U.S. (per gal.)

	Gasoline (All types)	Leaded Regular	Unleaded Regular	Unleaded Premium
OCTOBER				
U.S. City Avg.	\$1.201	\$1.123	\$1.207	\$1.339
Regions:				
Northeast	1.233	1.148	1.226	1.350
North Central	1.216	1.152	1.230	1.363
South	1.182	1.100	1.187	1.323
West	1.160	1.102	1.184	1.335

Source: U.S. Dept. of Labor, Bureau of Labor Statistics.

STOCKS (Add 000 bbl.)

	1/3/86	1/4/85
Gasoline (total)	227,760	241,359
Gasoline (Unleaded)*	110,798	110,802
Jet Kerosine	33,777	37,279
Distillates	143,895	158,919
Residual	47,635	54,794

*Included in gasoline total.

Source: American Petroleum Institute.

Marketing Capital Investments Could Reach \$4 Billion by 1987

Oil marketing is well on its way to its first \$4 billion year in capital investments in history.

It could happen this year but the likelihood is that 1987 will see the breakthrough—or be so close to it the deficit would be insignificant.

By way of contrast, a decade ago oil marketing was getting a measly \$632 million in capital improvements. This, of course, was in the midst of the traumas that followed the oil embargo and the confused profusion of federal regulations of the mid '70s.

The good news comes from McGraw-Hill, Inc.'s Economics Department, which released its 32nd Annual Survey of Preliminary Plans for New Plants and Equipment (1985-87) at the turn of the year.

The company withheld its 31st Annual Survey from general distribution in 1984 so the new survey represents the first public updating of this material in two years.

The rising tide of marketing investments came as the industry as a whole cut back on capital spending as a result of profit, tax and cash flow problems.

The McGraw-Hill economists said oil marketing expenditures penetrated the \$3 billion level for the first time in 1984. They were estimated to have increased almost 20% in 1985, and were projected to increase 8% in 1986 and one-half of 1% in 1987.

That would take the marketing investments to \$3.67 billion in 1985, to \$3.95 billion in 1986 and \$3.97 billion in 1987.

All these tens of millions of dollars are being poured into new and updated service stations, storage facilities, transports, and the whole new era of computerization and point-of-sale electronic facilities. They also reflect the higher cost of real estate and the fact that many modern units cost two, three and four million dollars versus the old concepts of several hundred thousand dollars each.

They also tell, in their own way, the growing intensity of competition for shares of the shrinking marketplaces and gallon-



Competition for market shares could push oil companies to invest an estimated \$3.95 billion in marketing this year.

age. New surveys, for example, indicate the service station world is now down to about 120,000 units and the "universe" is well under 200,000. The 120,000 category is that of so-called "true" service stations which get more than half of their sales dollars from gasoline while the "universe" includes convenience stores and others where gasoline is a secondary commodity.

(Continued on following page.)

Highway Users Urge End to Blend Subsidy

The Highway Users Federation is calling for an end to gasoline tax subsidies, claiming state and federal highway programs will lose a total of \$561 million in 1985 through tax breaks.

Using projected figures for gasoline sales through the end of 1985, the Federation says Virginia stands to lose \$21 million with an 8c gal. gasoline exemption on its motor fuel tax. Likewise, it estimates Florida will lose \$19 million and Ohio \$17 million, while 17 other states will lose between \$200,000 and \$16.3 million in state highway revenue.

On the national level, the Federation

says the Federal Highway Trust Fund will lose \$388 million because of the 6c gal. federal subsidy on gasoline at the pump. That figure could grow to \$600 million by 1988 if present subsidies and sales continue, it says.

"Motorists using gasoline place the same amount of wear and tear on roads and bridges as do gasoline users, yet they pay far less in highway user taxes," says Federation president John Clements.

Furthermore, the Highway Users Federation says gasoline tax subsidies are no longer needed to fulfill their initial intended purpose: to support a "fledgling

gasohol industry," reduce energy imports and encourage domestic energy diversification.

The Environmental Protection Agency's directive to reduce lead content in gasoline has spurred the gasohol industry into the sale of an estimated 6 billion gal. year in 1985, the Federation says. It adds, sales are expected to grow to 10 billion gal. year by 1988.

The Federation also claims "one domestic producer" and imports (especially from Brazil and Spain) currently total more than half of the U.S. gasohol market.

N-V

Marketing Getting Record-Breaking Investments

(Continued from previous page)

The McGraw-Hill survey anticipates that capital spending for the industry as a whole was estimated at \$49.3 billion in 1985, a record high, but was targeted to decline 7.8% in 1986 to \$45.4 billion and another 4.3% in 1987 to \$44.0 billion.

All of the survey projections could be affected in 1986, 1987,

even by the tax reform bills in Congress, by the growth or nongrowth of the economy itself, and by the fluctuation of international crude prices as exporters fight for market shares.

McGraw-Hill's survey was made last September and October, and generally involves about 800 to 1,000 of the nation's top businesses, including oil's.

N.Y.

Billions Targeted for Oil Marketing Expansion (in Millions of Dollars)

MARKETING:

1987 (Planned)	\$3,971 (+0.6%)*
1986 (Planned)	\$3,949 (+7.7%)
1985 (Estimated)	\$3,667 (+19.8%)
1984 (Actual)	\$3,060 (—)

TRANSPORTATION: (**)

1987 (Planned)	\$2,199 (-57.4%)	\$5,158 (+35.9%)
1986 (Planned)		
1985 (Estimated)	\$3,795 (+8.3%)	
1984 (Actual)	\$3,504 (—)	

EXPLORATION & PRODUCTION:

1987 (Planned)	\$31,575 (+10.7%)
1986 (Planned)	\$28,531 (-13.7%)
1985 (Estimated)	\$33,045 (+3.8%)
1984 (Actual)	\$31,821 (—)

REFINING:

1987 (Planned)	\$2,746 (-10.0%)
1986 (Planned)	\$3,050 (-9.6%)
1985 (Estimated)	\$3,376 (+11.4%)
1984 (Actual)	\$3,031 (—)

OTHER: (***)

1987 (Planned)	\$2,757 (-31.3%)
1986 (Planned)	\$4,011 (-9.7%)
1985 (Estimated)	\$4,442 (+4.2%)
1984 (Actual)	\$4,263 (—)

PETROCHEMICALS:

1987 (Planned)	\$757 (+6.4%)
1986 (Planned)	\$711 (-24.4%)
1985 (Estimated)	\$940 (+48.7%)
1984 (Actual)	\$632 (—)

TOTALS:

1987 (Planned)	\$44,004 (-3.1%)
1986 (Planned)	\$45,411 (-7.8%)
1985 (Estimated)	\$49,264 (+6.5%)
1984 (Actual)	\$46,311 (—)

*Figures in parentheses indicate percentage of change from previous year's total. **Includes oil but not gas pipelines. ***Includes coal mining by oil companies.
Source: McGraw-Hill Economics Department, Dec. 1985. 1986 Annual Survey of Preliminary Plans for New Plants & Equipment, 1985-87.

Variety of Market Statistics Tends to Reach Same Conclusion

The Energy Information Administration says the oil marketing statistics collected and distributed by key government, industry and private sources seem to be in general agreement even though their data collection activities and concepts vary considerably.

The agency reviewed statistics collected by its own offices, American Petroleum Institute, *Oil & Gas Journal* magazine, Federal Highway Administration and the U.S. Customs Office in various categories for the six-year period from 1979 through 1984.

There were some discrepancies, particularly in 1979 and 1980. Most, however, were under 2%. And the widest were two government discrepancies in residual fuel oil in 1979 and 1980.

The agency made no adjustment. In general, discrepancies between independent comparative estimates are due largely to differences inherent in the collection data activities, namely, sample

versus census, voluntary versus mandatory reporting, conceptual differences, and the data collection and estimation methods used.

The agency uses its own data in the Petroleum Supply Annual as the basic

reference point. All others were contrasted against these figures, including its own Petroleum Marketing Division reports.

Here are some of the key comparisons, all on a percentage basis.

Motor Gasoline Supplied for Domestic Use

Year	EIA Petro. Mktg. Div.	Amer. Petro. Inst.	Fed. High. Admin.
1984	4.2%	0.4%	2.0%
1983	3.2	0.1	0.7
1982	2.7	(0.5)	1.1
1981	1.1	(1.0)	1.7
1980	6.9	4.8	3.2
1979	7.0	0.4	3.2

To amplify the chart above, in the year 1984, EIA's statistics were 4.2% above the reference estimate, API's were within four-tenths of a point, and FHA's were 2% above.

Distillate Fuel Oil (Including Kerosene) Supplied for Domestic Use

Year	EIA Petro. Mktg. Div.	Amer. Petro. Inst.
1984	6.6%	0.9%
1983	1.7	(0.1)
1982	3.2	1.0
1981	(1.1)	2.8
1980	6.7	3.1
1979	5.3	1.1

Residual Fuel Oil Supplied for Domestic Use

Year	EIA Petro. Mktg. Div.	Amer. Petro. Inst.
1984	(3.4)	(0.6)
1983	(1.7)	1.2
1982	(6.9)	(0.8)
1981	(5.1)	2.4
1980	(11.2)	2.1
1979	(23.4)	1.2

Crude Oil Imports

Year	Amer. Petro. Inst.	U.S. Census Customs
1984	3.9%	(3.7%)
1983	1.4	(1.3)
1982	0.2	2.1
1981	0.7	1.9
1980	(0.5)	0.8
1979	(1.4)	1.5

Crude Oil Production (Including Lease Condensate)

Year	Amer. Petro. Inst.	Oil & Gas Jnl.	EIA Resers. Div.
1984	(1.6%)	(2.4%)	(1.0%)
1983	0.1	(0.3)	0.2
1982	0.2	0.0	(1.6)
1981	0.4	0.2	(0.6)
1980	0.4	0.0	(0.4)
1979	0.3	1.5	(0.6)

The complete tables and summaries are available in EIA's *Petroleum Supply Monthly*—September, published in November, 1985.

New Visa Card Offered to RV Club

Without striking a single deal with oil marketers, a Nevada bank has started a credit card program that gives thousands of people a 2% discount on all brands of gasoline.

The Valley Bank of Nevada has introduced a new Visa card that offers the one million members of the Good Sam Club—a recreational vehicle organization—not only low interest rates, but a 2% discount on all gasoline they buy.

The bank handles the entire operation with customers merely keeping their gasoline receipts and the bank itself giving the discount. Along with the discounts are low interest rates, as much as 6.5 percentage points below rates on other Visa cards while maintaining all advantages of convenience.

Since September of last year, 10,000 applications for the card were sent in, says a spokesman for the project.

Marketing is the big motive behind the offer, says the spokesman. The Good Sam Club has a million members, and because of the defined market, no advertising campaigns were needed. Brochures for the card, officially called the Valley Bank Good Sam Bonus Bankcard, were simply mailed with other Good Sam materials. The card itself incorporates the Good Sam logo of a smiling face with a halo. **N-V**